

Saimaa University of Applied Sciences
Faculty of Business Administration, Lappeenranta
Degree Programme in International Business

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Strategic Development into 3PL for Local Private Logistics Companies in Vietnam

Thesis 2013

Abstract

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The ever-changing ambient of Vietnam's logistics business demands local private firms to take proactive measures to survive and prosper. This study aims to substantiate the need of a 3PL transformation in the domestic market and suggest some employable activities accordingly. Information provided by this study would be a good reference for organizations to gain better knowledge and confidence at the commencement of the process.

Data were collected in two stages using qualitative method. The first stage was reviewing literature to acquire sufficient knowledge from different sources concerning the chosen topic; while the second stage involves data collecting, comparing and analyzing via the case company.

As a result of this thesis, a value creation model adapted from different theories emerged, in addition to a proffer of strategic orientation. Further research is required to test the validity of such propositions.

Keywords: third-party logistics, strategy, strategic positioning, value creation

Table of Contents

1	Introduction.....	1
1.1	Background.....	1
1.2	Objectives	2
1.3	Research questions	2
1.4	Delimitation	3
2	Research method	3
2.1	Research methodology	3
2.1.1	Literature review	4
2.1.2	Data assessment	4
2.1.3	Studying case company	4
2.2	Thesis procedure	5
2.3	Basic theory	5
3	Problem analysis of logistics industry in Vietnam	7
3.1	Description on logistics industry in Vietnam	7
3.1.1	Overall logistics performance in 2012	7
3.1.2	Logistics companies in Vietnam.....	9
3.2	Characteristics	11
3.2.1	Medium-scale market with high potential	11
3.2.2	Inadequate logistics capacity	12
3.2.3	Fierce competition.....	13
3.3	Market trends	13
3.3.1	Maritime transport service.....	14
3.3.2	Rail freight and in-land waterway transport service.....	14
3.3.3	Trucking service.....	14
3.3.4	Air transport service	14
3.3.5	Supportive service for all modes of transport.....	15
3.4	Strengths and opportunities	15
3.5	Major challenges	16
3.5.1	Inconsistent regulations	16
3.5.2	Overlapping responsibilities among related sectors.....	17
3.5.3	Skill shortage	17
3.5.4	Under-developed infrastructure.....	17
3.5.5	Limited corporate capability	18
3.5.6	Low level of technology.....	18
3.5.7	Business norms	18
3.6	Chapter summary.....	19
4	Rationale for 3PL transformation	19
4.1	History of 3PL.....	20
4.2	Types of 3PL providers	21
4.2.1	Hertz and Alfredsson's viewpoint	21
4.2.2	Coyle, Bardi and Langley's viewpoint	22
4.3	Extension of terminology.....	24
4.4	Role of 3PLs in the supply chain	26
4.5	Benefits of becoming 3PLs.....	26
4.6	Basic requirements of 3PLs	28
4.6.1	Operations	28
4.6.2	Resources.....	29

4.6.3	Security	29
4.7	Chapter summary.....	30
5	Strategy in logistics service	30
5.1	“Strategy” defined.....	30
5.2	Levels of strategy	32
5.3	Strategy process	32
5.4	Strategic positioning.....	34
5.5	Chapter summary.....	36
6	Value creation.....	36
6.1	Importance of value creation in logistics service business	36
6.2	Factors of value creation.....	38
6.2.1	Value towards customers.....	38
6.2.2	Value towards shareholders, staff and suppliers.....	39
6.2.3	Value towards the society	41
6.3	Building a value creation model	41
6.4	Chapter summary.....	44
7	Case study	45
7.1	Case profile	45
7.1.1	Functionality.....	45
7.1.2	Mission.....	46
7.1.3	Organizational structure	46
7.2	Capability assessment	47
7.2.1	Facilities	47
7.2.2	Capacity	48
7.2.3	Labor.....	50
7.2.4	Service level.....	52
7.2.5	Technology	52
7.2.6	SWOT analysis	52
7.3	Strategy.....	54
7.4	Recommendations	54
8	Conclusion.....	56
9	Prospect for further research.....	56
	List of figures.....	
	References.....	
	Publications	
	Internet sources	
	Reports from case company	

1 Introduction

This chapter gives an overview of the background of the thesis, as well as determines research objective, questions, and scope of study.

1.1 Background

Ever since becoming a member of WTO in 2007, Vietnam has seen rapid economic growth and substantial changes in government policies to accommodate novel industrial activities. Moreover, other favorable factors such as relatively low labor costs, plenty geographical advantages, and a strategic location in a fast-growing region of the world, have led to the growth of FDI (Foreign Direct Investment) flows into Vietnam, as well as the establishment of more Vietnamese SME (Saladini et al. 2011). Vietnam's exports and imports have been consistently increasing with an annual average rate of 20% (Saladini et al. 2011), reaching US\$114.6 billion and US\$113.8 billion respectively (Sai Gon Giai phong 2012). By the end of 2012, Vietnam achieved a trade surplus of US\$284 million for the first time after 20 years of deficit (General Statistics Office 2013).

As a result of this breakthrough, there has been a strong demand for logistics services booming in Vietnam's market in recent years. Despite its positive and speedy progress, Vietnam's logistics industry has yet developed on a par with its potential, due to some restraints such as inconsistent regulation, skill shortage, and overlapping responsibilities, which slows industry growth.

Currently, the logistics industry in Vietnam is still incipient with a severe lack of integration between different phases and activities. The market can be segmented based on functional characteristics into three main categories: transportation, freight forwarding and warehousing. While demand for both transportation and freight forwarding services is strong, Vietnam's transportation sector remains comparatively weak albeit having the most extensive transport system in the Indochina region (Saladini et al. 2011). On the other hand, warehousing sector and value-added logistics activities have not gained

popularity in practice yet, since most of them are operated in-house. The distribution network is fragmented and limited within some state-owned and private firms. This incoherence has cost Vietnam's logistics industry not only monetary resources but also years of delay in growth. Much has been done by both authoritative agencies and leading logistics firms in Vietnam to cope with this situation, however, their schemes deem rather tactical and intermittent.

1.2 Objectives

This thesis aims to indicate the need of 3PL in Vietnam's emerging logistics industry, and subsequently suggest a viable strategy to re-engineer local private logistics firms into 3PL providers from the viewpoint of an entrepreneur.

1.3 Research questions

Ultimately, the research outcomes are meant to answer the following questions.

i. How is "strategy" defined in logistics companies?

In regard to strategic development, it is important to understand "strategy", which is an essential part of the riddle. This question tries to identify the most suitable definition of "strategy" concerning business in logistics service industry.

ii. What are the most pertinent problems regarding Vietnam's logistics industry?

The answer to this question covers Vietnamese logistics industry's current situation, market trends and major challenges.

iii. Why do local logistics companies need to change into 3PL providers?

The question will address the reasoning behind decisions on a 3PL transformation.

iv. Through which activities can local private logistics companies accommodate the 3PL transformation?

The last question of this study attempts to propose a course of actions that may lead to a successful transition into 3PL.

1.4 Delimitation

This thesis aims to introduce a development strategy for private logistics companies with domestic capital in Vietnam to become 3PL service providers from the view point of an entrepreneur rather than a policy maker. The idea originated from the author's internship with VINAFREIGHT – a leading firm whose nature is believed to reflect the common situation of the majority of domestic logistics companies in Vietnam at present. It should also be noted that the contents focus on building strategy rather than the complete strategic management process (including construction, implementation and control).

Although the strategic model was developed based on the study of one case company, generalization for advancement is possible. However, any act of replication is largely subjective and varying, depending on the organization in question.

2 Research method

In this chapter, research methodology will be described in details, followed by a sketch of the case company and major headlines in theory.

2.1 Research methodology

The approach of this work is qualitative and descriptive. Specifically, it will involve literature review, data assessment and empirical research from a case company of the author's choice.

2.1.1 Literature review

The literature needed for the thesis is supposed to provide sufficient and reliable information in the following areas:

- Current trends in the logistics industry
- Opportunities and major challenges in Vietnam logistics industry
- 3PL's characteristics and role in the supply chain

Ultimately, literature review will be used to answer question II and III, and possibly some parts of question I.

2.1.2 Data assessment

The author will compare data from the World Bank in the matter of Vietnam's logistics performance in general, and annual reports of the case company in specific, to assess the feasibility of a 3PL transformation in the near future. Accordingly, the author may either come up with a custom framework, or modify the original "value creation model" derived from previous literature review.

2.1.3 Studying case company

Formerly VINATRANS' in-house logistics unit, VINA FREIGHT was officially recognized as Foreign Trade Transport Joint Stock Corporation in 2002. Over the past ten years, VINA FREIGHT has gone the distance to become one of the leading organizations specialized in logistics services and shipping agents. Not only does VINA FREIGHT manage to maintain solid growth every year, but the company also achieves high credibility among partners, customers and authoritative agencies. Moreover, VINA FREIGHT business covers a wide range of logistics activities in all three functions: transportation, freight forwarding and warehousing.

As aforementioned, by comparing data from VINA FREIGHT's annual reports (2007 – 2012), the author will assess the development process of the company over the years and decide whether VINA FREIGHT is capable of a 3PL

transformation. Either way the author will suggest an approach to help the company meet the objectives. This will give response to question IV.

In short, VINAFREIGHT, as a case company, is believed to reflect the common situation of the majority of logistics firms in Vietnam presently. Accordingly, the strategy proposed to VINAFREIGHT can be generalized and replicated in other firms for the same purpose – to evolve into 3PL providers.

2.2 Thesis procedure

The thesis writing process and methodology can be summarized in the following diagram.

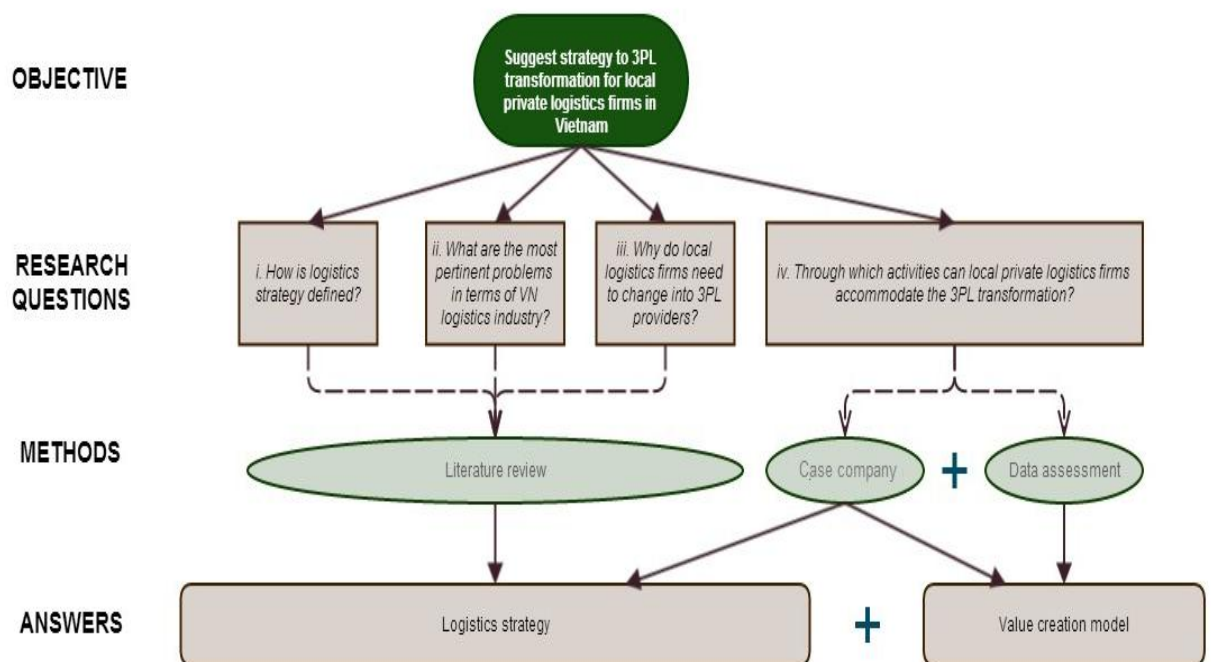


Figure 1. Thesis procedure

Details are explained in subchapter 2.1 above.

2.3 Basic theory

Logistics is the process of optimizing place and time, transporting and storing resources from the start of the supply chain, through production and distribution,

to the end users with minimal costs, maximal satisfaction and thanks to the integration of various business activities (Doan and Pham 2013).

As a major economic function, logistics plays an important role in the general economy and enterprises alike. Logistics contributes to all sectors – from manufacture, trading to healthcare and education – and help improve quality standards in every aspect of life.

On the other hand, the 3PL industry, whose origin dates back to the 1970s and 1980s, has become an important component of the industrial world over the past years. Along with the increased popularity of 3PLs among various sectors, more and more logistics firms are striving towards a 3PL transformation, because of these benefits – more opportunities for sustainable growth, improve corporate image, and build customer loyalty. Especially in the context of Vietnam, an evolution into 3PLs will significantly shorten the gap of technology and expertise between local market and international ground. However, this requires inclusive assessment of certain basic logistics requirements, which may include transportation, inventory optimization, warehousing, order fulfillment, or the integration of all these and other functions, if applicable (Carbone and Soifer 2009).

Subsequently, a value creation model will be defined. This model deals with both external and internal parties, who have direct impacts on corporate performance and growth – shareholders (lower costs), employees (retain talent), customers (increase value) and community (ensure corporate social responsibility), based on Haksever et al.'s point of view (2004).

In a nutshell, 3PL is yet a common and applicable concept in the emerging market of Vietnam. Some literature is available, a few proposals have been made but none has considered the possibility of a value creation model and what impacts it can have on the progress of the logistics industry. Instead, most researchers target infrastructure improvement, workforce training or technology investment. Therefore, through this thesis, the author attempts to prove the role of value creation in the formation of 3PL in Vietnam.

3 Problem analysis of logistics industry in Vietnam

This chapter discusses Vietnam's logistics industry with observable market trends, as well as analyzes its strengths, weaknesses, opportunities and existing challenges.

3.1 Description on logistics industry in Vietnam

Vietnam's logistics performance in 2012 will be assessed based on data from the World Bank, followed by classification of logistics firms in the domestic market. This will give readers an overview on the current state of Vietnam's logistics industry.

3.1.1 Overall logistics performance in 2012

Established by World Bank as a benchmarking interactive tool, LPI (logistics performance index) is used to help countries identify challenges and opportunities in trade logistics, as well as prompt possible improvement.

Calculated on a five-point scale, with one (1) reflecting the worst and five (5) the best, LPI is comprised of six components, namely:

- **(a)** Customs clearance efficiency (speed, simplicity and predictability of formalities);
- **(b)** Trade and transport infrastructure (ports, roads, technologies, etc.) quality;
- **(c)** International shipments arrangements;
- **(d)** Logistics services competence (forwarders, carriers, customs brokers, etc.);
- **(e)** Tracking and tracing capability;
- **(f)** Timeliness of shipments in reaching destination within the expected timeframe.

Vietnam's LPI across the three years in 2007, 2010 and 2012 are demonstrated in the following figures.

YEAR	LPI RANK	LPI SCORE	(A)	(B)	(C)	(D)	(E)	(F)
2012	53	3.00	2.65	2.68	3.14	2.68	3.16	3.64
2010	53	2.96	2.68	2.56	3.04	2.89	3.10	3.44
2007	53	2.89	2.89	2.50	3.00	2.80	2.90	3.22

Figure 2. Comparison of Vietnam's LPI in 2007, 2010, and 2012 (Vietnam Score Card 2012, World Bank)



Figure 3. Vietnam's LPI across the three years 2007, 2010, and 2012 (Vietnam Score Card 2012, World Bank)

Vietnam's LPI until December 2012 is 3.00, ranking 53rd out of 155 countries being assessed. It is evident that Vietnam's ranking has been stable throughout the years with an ascending trend overall and in most of the dimensions. Compared to the previous years, the efficiency of the clearance process downscaled gradually. At the same time, the competence of logistics services also witnessed a slight fall. Nonetheless, Vietnam's performance is better than

the average of both the East Asia and Pacific region (2.84) and the lower middle income group (2.55).

3.1.2 Logistics companies in Vietnam

At present, there have not been accurate data about the number of enterprises that provide logistics services in Vietnam yet, not even from Vietnam Freight Forwarders Association (VIFFAS). Allegedly, until November 2012 there are approximately 1000+ local organizations of small and medium scales working in the industry, 193 of which are VIFFAS members (including 161 official members and 32 associated members) (Doan and Pham 2013). However, they account for only 4.4% of total GDP, corresponding to 25% of the local market, the remaining market share is occupied by foreign companies.

Specifically, logistics companies in Vietnam are categorized into three main groups – (1) 100%-FDI (foreign direct investment) companies or joint ventures, (2) state-owned organizations, and (3) private-owned enterprises.

- Group (1), as the name implied, is comprised of companies that are partially or completely funded by foreign investment, e.g. DHL, Maersk Line, Agility Logistics. They have a global focus that aims to serve well-informed customers with strong demands for full logistics service package. This group takes up approximately 2% of the logistics market (Doan and Pham 2013).
- Group (2) occupies almost the entire forwarding services and domestic transportation, serving multiple customer segments. However, these companies are mainly specialized in individual areas rather than integrated services. Most profits in the transport and distribution sectors come from this group. Some of the most eminent players in this group are Vinalines, Transimex, and Vinafco.

- Group (3) has the most potential for future development, targeting similar customer segments. Joint-stock companies are most popular in this group, such as VINATRANS, SOTRANS, VINA FREIGHT, GEMADEPT, and so on. Also, in this third group, the perception of both logistics providers and customers are rapidly changing to accommodate different trends in the market. Since the right of ownership is closely associated with business interests, management team in these companies always calculate the most cost-effective options, especially in terms of costs and competition.

As aforementioned, local private logistics companies, albeit existing in great numbers, contribute to only a minor portion of total industrial GDP. According to VIFFAS' survey (cited by Doan and Pham 2013), local logistics enterprises have an average operating timeframe of 5 – 7 years, whose registered capital usually falls between 500 million and less than 5 billion VND (approximately US\$23500 to US\$235000). The size of business is also reflected by the number of employees, for example many firms have been working with limited workforce of around 10 people. Therefore, local enterprises are only capable of separate, unsophisticated, and low value-added services, such as customs declaration, in-land transportation via trucks or containers, delivery order issuance, operation on behalf of carriers, etc. Most of them have yet established representative offices overseas; all foreign-related assignments are to be managed by corresponding agencies. Furthermore, each and every domestic enterprise struggles and competes against one another for a limited range of activities, and simultaneously emphasizes on discounts to entice customers with unverified service quality. This has led to negative precedents in logistics industry.

Meanwhile, the lack of activities that connect domestic companies specialized in foreign trade, such as maritime transportation, has hindered legitimate cohesion and development of domestic business community. Consequently, most domestic enterprises are now being suppressed by foreign players' expansion, and none has yet been able to offer full-package service for customers.

3.2 Characteristics

Compared to other parts of the world, logistics industry in Vietnam is still in its infancy, as supply chain processes, for instance procurement, transportation, warehousing and delivery, are not executed in an integrated manner. Particularly, there are three main characteristics of Vietnam's logistics industry, which are medium-scale market with high potential, inadequate capacity and fierce competition.

3.2.1 Medium-scale market with high potential

As an emerging market, Vietnam has high yet unsustainable growth rate. Economic development is relatively inefficient, especially logistics costs account for a considerable proportion of total GDP, as shown in Figure 4 below. It is also believed that the majority of logistics costs are attributed to transportation, sometimes up to 60% (VNExpress 2012), and inventory holdings.

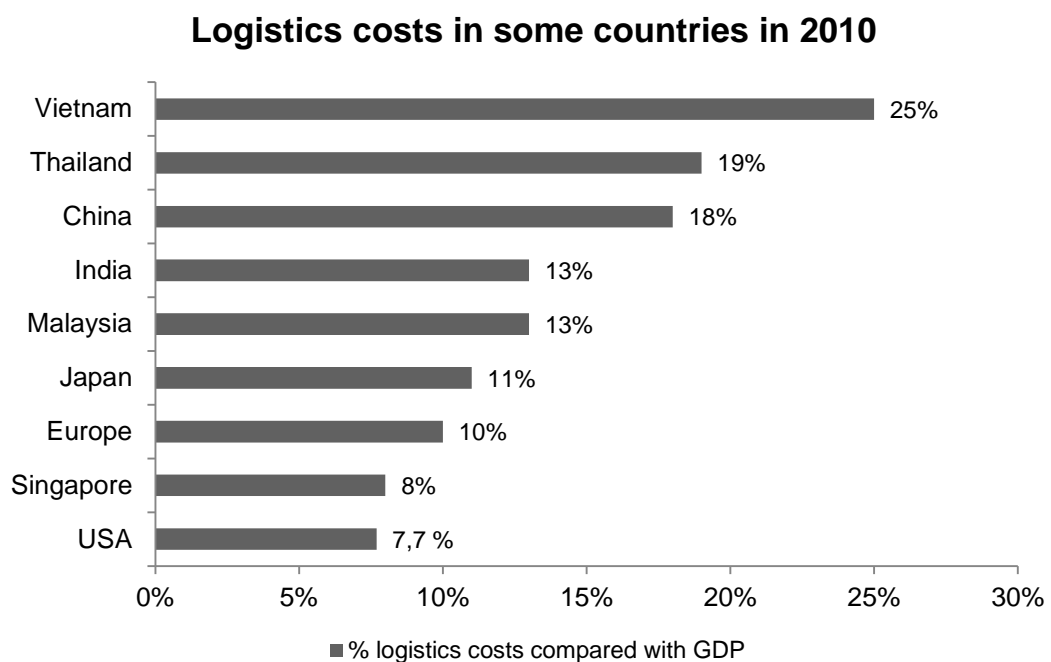


Figure 4. Logistics costs in comparison with GDP in some countries in 2010 (The Journal of Commerce Online (USA), Wharton (Europe, India, Japan), The Global Rail (China), Frost & Sullivan (Singapore, Malaysia, Thailand, Vietnam))

As seen from Figure 4, compared to other countries, logistics costs in Vietnam take up 25% of GDP value, which is approximately US\$25 – 30 billion per annum. Despite its unfavorable impact on the national economy, this has shown an increasing need for logistics services in Vietnam. While the service standards are still vague, which is the main cause of extended logistics costs; there is plenty of room for improvement that makes Vietnam a promising playground for 3PL providers.

3.2.2 Inadequate logistics capacity

Although Vietnam has maintained its logistics performance rank on World Bank chart over the past years, its actual capacity only ranks among the lower-average group regionally, as shown in Figure 5.

SEGMENT	COUNTRY	LPI RANK	LPI SCORE
Sophisticated logistics development	Singapore	1	4.13
Average logistics development	Malaysia	29	3.49
	Thailand	38	3.18
	Indonesia	52	3.02
	Vietnam	53	3.00
	Philippines	59	2.94
Low logistics development	Cambodia	101	2.56
	Laos	109	2.50
	Myanmar	129	2.37

Figure 5. Logistics performance of ASEAN countries in 2012 (World Bank 2013)

On the other hand, Vietnam's seemingly positive LPI is largely attributed to the activities of foreign logistics enterprises rather than local ones. This shows that logistics operations in Vietnam are experiencing extreme shortage in resources

as well as feasible strategies for advancement. Details will be discussed later in subchapter 3.5.

3.2.3 Fierce competition

Logistics is a particular field that facilitates both tangible and intangible business sectors, as well as brings excess profits. Aware of that, more and more organizations and individuals are investing in logistics and competing against one another for fragmented service types in a disintegrated manner.

On the one hand, according to Vietnam's commitments to WTO, within 5 – 7 years after participation, carriers and logistics providers from overseas will be able to establish companies in Vietnam with up to 100% foreign investment. Their world-class offers are very likely to put pressure on local logistics firms and therefore, have a major impact on the industrial competition and especially maritime sector.

3.3 Market trends

In addition to the increasing flow of FDI into Vietnam in recent years, Vietnamese government aims to invest as much as 10% of the total GDP in infrastructure including transport, energy and telecommunication sectors (Hiong 2011), in hope that improved facilities and auxiliary services like warehousing, depots and distribution centers will further boost the demand and create more opportunities for local logistics providers.

Moreover, upon joining WTO, Vietnam's logistics industry has committed to the disclosure of these following sectors:

- Container loading and unloading service;
- Warehouse service;
- Freight agency service

with specific terms and conditions for different forms of service (Documentations of Vietnam's commitment to WTO 2007).

3.3.1 Maritime transport service

- Under WTO commitment, this sector has the most profound impact on local logistics firms.
- Foreign investors may establish joint ventures with the foreign capital contribution not exceeding 51% (before 2014).
- By 2014 foreign investors may establish companies with the proportion of foreign capital up to 100%.

3.3.2 Rail freight and in-land waterway transport service

- Foreign investors may establish joint ventures with the foreign capital contribution not exceeding 49%.

3.3.3 Trucking service

- Foreign investors may establish joint ventures with the foreign capital contribution not exceeding 49% (before 2010).
- By 2010 foreign investors may establish companies with the proportion of foreign capital up to 51%, depending on market needs.
- 100% of truck drivers of the joint venture must be Vietnamese.

3.3.4 Air transport service

- WTO requests adjustments on supportive services, such as sales and marketing services for aerospace products, e-booking, aircraft maintenance and reparation.
- There are little limitations imposed on foreign air transport service providers.
- Foreign investors may establish joint ventures with the foreign capital contribution not exceeding 51% (before 2014).
- By 2014 foreign investors may establish companies with the proportion of foreign capital up to 100.

3.3.5 Supportive service for all modes of transport

- This include container loading and unloading service, warehousing service, transportation and cargo agent service and other supportive services.
- Foreign investors may establish joint ventures with the foreign capital contribution not exceeding 50%.
- Warehousing and shipping agent services:
 - Foreign investors may establish joint ventures with the foreign capital contribution not exceeding 51% (before 2014).
 - By 2014 foreign investors may establish companies with unlimited foreign capital.
- Other supportive services:
 - Foreign investors may establish joint ventures with the foreign capital contribution not exceeding 49% (before 2010).
 - By 2010 the proportion of foreign capital may contribute to no more than 51%.
 - By 2014 foreign investors may establish companies with unlimited foreign capital.
- Under WTO commitment, Vietnam has terminated prohibited former subsidies for enterprises.

In short, the year 2014 when Vietnam will completely open up its logistics industry is just around the corner. Vietnamese enterprises need to strive towards international standards to be able to compete fair-and-square with foreign giants.

3.4 Strengths and opportunities

As mentioned above, Vietnam's development potential in logistics is really huge. It is anticipated that within the next 10 years, Vietnam's exports will reach US\$200 billion. The fact that Vietnam is expecting complete exposure to international market by 2014 is indeed an ample opportunity for local logistics enterprises, because under the impact of culture – work collision, they will be

able to learn from their extrinsic counterparts and reflect on their own performance as well.

On the one hand, this may also threaten the currently settled position of lots of domestic enterprises alike. Yet, Vietnam seems to have the upper hand due to three reasons. First of all, since the majority of warehouses and depots are owned by internal organizations, foreign investors must either lease from or join business with domestic logistics companies to utilize such facilities. Secondly, the advantage of being indigenous is undeniable – domestic enterprises are able to understand the market, culture, geo-demography and client preferences better, therefore capable of providing tailored services at a more reasonable price. Such knowledge can also be used as leverage over foreign competitors. Thirdly, Vietnamese labor is diverse, industrious and willing to learn new skills and technologies so as to improve output. It is forecasted that within the next 3 years, local logistics firms will need about 18 000 workers; while other companies, including manufacturers, vendors, distributors, etc., expect 1 million trained personnel in logistics, suggesting myriad career opportunities (Vietnam Logistics Associations 2013). In addition, human resources management in Vietnam is peculiarly effective in such a way that most assignments can be done manually, regardless of the number of shipments or the lack of sophisticated systems, without compromising the service quality.

3.5 Major challenges

There are many reasons that impede the growth of logistics industry in Vietnam, which are regulatory inconsistency, overlap, skills, infrastructure, corporate capability, technology, and business norms.

3.5.1 Inconsistent regulations

Nowadays, paperwork is still a blatant obstacle in doing logistics in Vietnam. Complicated regulatory standards and administrative procedures tremendously increase both lead time and freight handling costs. This inadvertently contributes to abnormally high inventory holdings in Vietnam, which causes

excessive logistics costs. Moreover, even the allegedly most complete Vietnamese Law of Commerce lacks clear provisions concerning non-vessel operating common carrier (NVOCC) and multi-modal transport. Meanwhile, express delivery is not recognized as a logistics service and regulated under post and telecoms decrees. Last but not least, as the authorities focus on state management policies and mechanisms instead of maintaining administration over affiliated logistics companies, this vertical decentralization splits logistics and shipping into two separate business fields (Vietnam Logistics Associations 2013). All have created a confusing, unfavorable situation for Vietnamese logistics industry.

3.5.2 Overlapping responsibilities among related sectors

In Vietnam, there are no well-defined boundaries between the operations of various logistics-related businesses. These companies tend to rival rather than complement one another's offerings, which leads to duplication and higher costs.

3.5.3 Skill shortage

Vietnamese logistics industry is extremely short of trained and experienced human resources. While educated staff is usually not specialized in logistics or supply chain management, physical laborers come from modest educational backgrounds and are unfamiliar with a professional environment.

3.5.4 Under-developed infrastructure

Over the past years, Vietnam has strived to improve its logistics infrastructure yet with insignificant positive result. Even now, Vietnam's infrastructure is widely perceived as poor, primitive and irrationally distributed. Sea ports are either inefficient, inferior in size and depth, particularly congested or gradually degrading. They also lack modern handling facilities as well as loading / unloading docks. Highway system is absent, while urban roadways are not designed for container transportation. Railways, under the sole control of Vietnam Railway Corporation (VCR), have not been fully utilized and fallen into

stagnation. Also, during peak seasons, there are not enough aircrafts for transportation. Even international airports like Tan Son Nhat (Ho Chi Minh City), Noi Bai (Ha Noi) and Da Nang (Da Nang) do not have cargo terminals or specialized areas for cargos collection and clearance.

3.5.5 Limited corporate capability

Apart from state-owned organizations, most local logistics firms are of small and medium size, with modest capital investment and a narrow scope of services. The discrepancy between quantity and quality of such firms not only disrupts the market, but also confuses customers and thus, impedes the growth of logistics industry.

3.5.6 Low level of technology

Compared to other parts of the world, logistics technologies in Vietnam is very incipient. Except for companies that have foreign investment (e.g. joint ventures, subsidiaries in Vietnam of multi-national corporations), contacts between service providers and clients are entirely manual and paper-based. In addition to the lack of up-to-date machineries for warehousing and transport purpose, book-keeping methods are largely archaic, tedious and have not applied IT technology. However, in recent years the government has made efforts to improve efficacy and promote the supportive role of IT in logistics by digitizing some procedures, for instance custom declaration. This has left a good influence on the industry as a whole, and at the same time encourages local firms to consider replacing manual work by management systems.

3.5.7 Business norms

One significant disadvantage of Vietnam's foreign trade is the habit of "selling FOB – buying CIF". Apparently, Vietnamese firms are inclined to transfer risks to buyers (in case of export), and prolong sellers' responsibilities (in case of import). This practice is believed to help domestic shipping lines save overheads and insurance costs, as well as protect local companies from risks. However, since clients mostly prefer shipping lines and carriers originated from

their own countries, this inadvertently deprives domestic shipping lines from fleet transport and leaves them decaying. Apart from poor personal selling and negotiating skills, this type of concrete mindset prevents new workforce from exceling and inducing positive change in the industry.

3.6 Chapter summary

Vietnam has been ranked 53rd by World Bank in respect of logistics performance for three consecutive years (2010 – 2012). Its logistics industry is characterized as medium-scale, high potential and inadequately cultivated, with three main groups – foreign companies or joint ventures, state-owned organizations, and private enterprises.

Apparently, Vietnam, on its journey of global assimilation, is blessed with favorable conditions and obscured by plenty obstacles alike. This hapless situation derives from shortcomings in infrastructures, manpower and skills. Vietnamese logistics companies must figure out a revolutionarily new direction to arm themselves in the increasingly fierce competition, as foreign corporations are rampaging through the domestic market.

Therefore, so as to improve competitive position in the long run, as well as take full advantages of Vietnam's innate industrial potential, local firms need to invest in strategic development into 3PL.

4 Rationale for 3PL transformation

In this chapter, the definition of 3PL and related concepts will be discussed, followed by the benefits of becoming a 3PL service provider, and what it takes to become one.

A third-party logistics (3PL) service provider is defined as an “external supplier that performs all or part of a company’s logistics functions.” It is desirable that these suppliers provide multiple services and that these services are integrated in the way they are managed and delivered.

(Coyle, Bardi and Langley 2003, p. 423)

4.1 History of 3PL

As mentioned earlier, 3PL started with small enterprises in the 70's and 80's, who tried to outsource parts of their business operations to outside service providers. These service providers eventually expanded their geographical coverage, facilities and commodities; as well as synchronized warehousing and transportation. After the trucking deregulation, specifically the Motor Carrier Act of 1980, truckers were given more freedom as well as flexibility to tailor their operations, which resulted in increased competition, enhanced service quality and improved efficiency. Moreover, there was a significant rise in intermodal carriage (of 70%) from 1981 to 1986 (Moore 2002). These movements were the cradle of the 3PL industry, leading to the early development of "third-party logistics" concept in 1986, presented by Ken Ackerman and Dean Wise in the Council of Logistics Management Annual Conference (according to Logistics List 2012).

Nowadays, even though 3PL has become quite a common term in business, there has not been a complete, in-depth explanation about its nature and functions yet. According to Maxwell (2011), third-party logistics service provider, or 3PL for short, is the representative of the owner of the shipments and responsible for all logistics-related functions, for instance execute export procedures and domestic transportation on behalf of consignor, do customs clearance and arrange transport mode to the place of destination on behalf of importer, etc. Therefore, 3PLs cover a very wide range of services, incorporate many resources and have effectively integrated into the supply chain.

In other words, 3PL is the service in which most or all logistics activities of a company are provided by a specialized middle man on a contract basis. Thanks to its viability, 3PL is an excellent choice of outsourcing / subcontracting / offshoring for most multi-nationals corporations investing in a new, emerging market.

4.2 Types of 3PL providers

This chapter discusses different types of 3PL service providers from two perspectives – one from Hertz and Alfredsson (2003), and the other from Coyle, Bardi, and Langley (2003).

4.2.1 Hertz and Alfredsson's viewpoint

According to Hertz and Alfredsson (2003), there are four types of 3PL providers, which are standard 3PL, service developer, customer adapter and customer developer.

- Standard 3PL providers are allegedly the most basic form of 3PL. These companies perform logistics services such as packaging, warehousing, distributing, etc. beside their normal business operations.
- Service developers, in addition to basic logistics functions, offer value-added activities aided by advanced infrastructure, IT support, product tracking and security, with a focus on creating economies of scale and scope.
- Customer adapters take over the whole logistical operations at the behest of the hiring companies. For such a reason, they rely on a limited number of very close customers. Although these firms usually improve the overall efficiency, they may not ameliorate existing infrastructure.
- Customer developers, known as the most evolved and difficult form of 3PL, are somewhat similar to customer adapters, except that they immersed themselves in the hiring organizations' operations with high integration and extensive support. Such firms share the risks and rewards of the logistics management with their customers. (Hertz et al. 2003, according to Moore 1987.)

Evidently, Hertz et al. (2003) classified 3PL providers according to their abilities of problem solving and customer adaptation, which can be demonstrated through the following diagram.

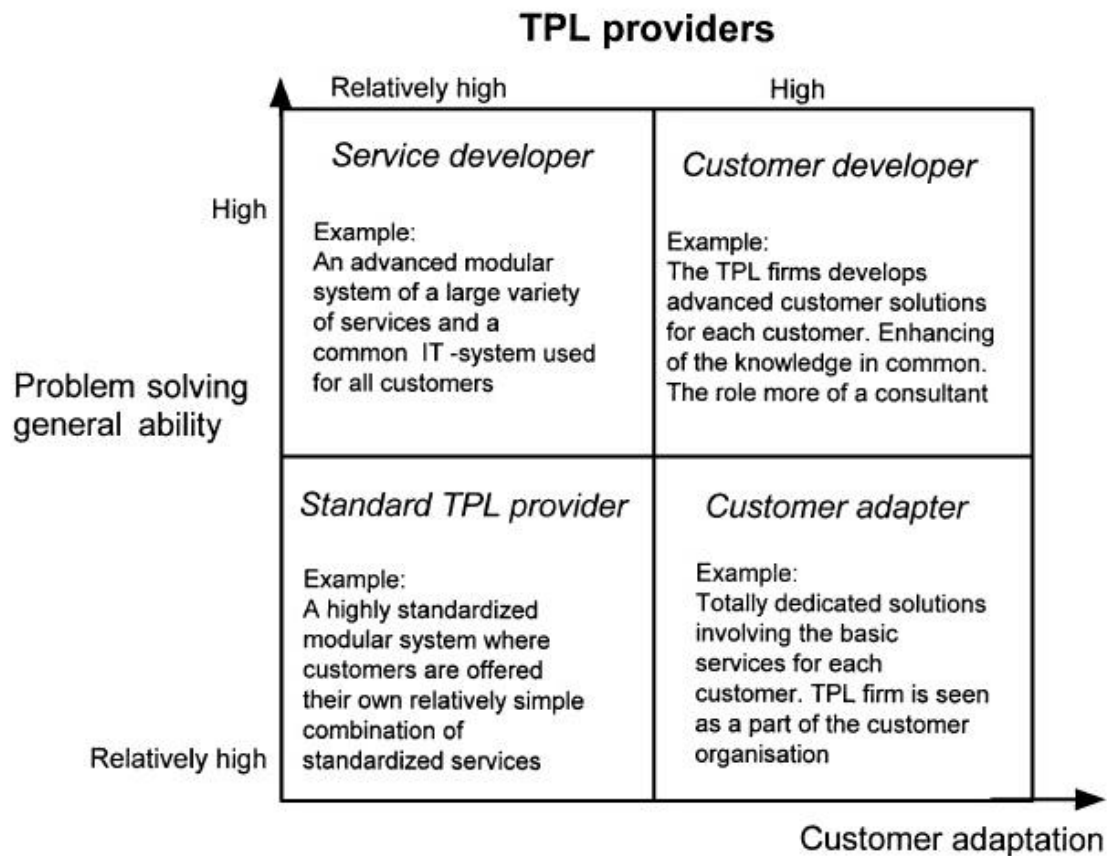


Figure 6. 3PL classification in terms of problem solving ability and customer adaptation (Hertz & Alfredsson 2003)

The vertical axis represents general problem solving ability with ascending intensity; while the horizontal axis portrays the degree of customer adaptation with the farthest right showing the keenest. Additionally, this diagram provides some generic examples to clarify foregoing concepts.

4.2.2 Coyle, Bardi and Langley's viewpoint

Meanwhile, Coyle et al. (2003, pp. 399 – 403) described five categories of 3PL based on functional characteristics, namely transportation-based, warehouse/distribution-based, forwarder-based, financial-based and information-based.

- **Transportation-based**

For such companies, extension beyond transportation facilitates more comprehensive logistics offerings. Apart from freight forwarding, they manage transportation, provide contract carriage, and operate support centers, among other services. While some 3PLs may use assets of other firms, many of them leverage assets that belong to the parent firm. APL, FedEx, UPS, and Schneider are a few examples.

- **Warehouse/distribution-based**

As the name implies, these 3PLs originate from public or contract warehousing business. Compared to transportation-based 3PLs, these firms go through the transition to integrated logistics more smoothly, owing to previous experience in warehousing / distribution. They easily win customers' favor with a one-stop integrated logistics service package, combining warehouse and transport in a single offering. Some examples of this group are DSC Logistics, Exel, and IBM.

- **Forwarder-based**

These companies are known as independent middlemen dilating upon their forwarder roles e.g. brokers, agents, etc. Despite owning no assets, they are very capable of providing a wide range of logistics services. Kuehne + Nagel, AEI, and C. H. Robinson are among the best players in this group.

- **Financial-based**

Such organizations, for instance FleetBoston, give support to financial aspect of the hiring companies, from freight payment, freight bill auditing, cost accounting and control to monitoring, booking, tracking, tracing and managing inventory.

- Information-based

Under the charm of the digital age, electronic markets for transportation and logistics services are growing really fast. Information-based 3PLs, like Transplace and Nistevo, provide transportation management solutions using the power of technology and offer “software as a service” to their customers.

4.3 Extension of terminology

It can be inferred from the definition above that lots of 3PL have backgrounds in trucking, rail, warehousing, or even software business. Currently there are plenty of hybrids and variations of third-party logistics service providers in the industry. Some examples are:

- trucking companies that expand into warehouse facility;
- storage companies with own transport fleets;
- transportation providers with a focus on intermodal solutions and freight management;
- warehouse partners of rail (freight) companies.

Besides, it is necessary to differentiate 3PL from other parties in their interrelationship, namely:

- 1PL: concerns the actual shipper (e.g. manufacturing firms) or the consignee (e.g. retailers). Distribution of the cargo from the point of origin to the destination is undertaken by the firm itself. However, as a result of globalization and offshoring manufacture, distribution services are inclined to be outsourced by external service providers.
- 2PL: refers to carriers – e.g. trucking companies (C.H. Robinson, Schneider, Ryder), rail operators (VR Oy, SBS Transit, Deutsche Bahn), shipping lines (Maersk Line, Hapag-Lloyd, Hanjin Shipping), and airlines (KLM, Vietnam Airlines, Finnair) – that provide transport services over a particular segment of a transport sequence.

- 4PL: adverts to independent, neutral and non-asset based actors, like consulting firms (Deloitte, Accenture, KPMG), that integrate resources, organize and manage supply chain solutions for their clients. (Farahani, Rezapour and Kardar 2011, p. 80.)
- 5PL: aggregates the demands of 3PLs and others in conjunction with e-business. By utilizing an e-logistics network focusing on global operations, 5PLs tend to a higher degree of collaboration and operational savings. (Farahani et al. 2011, pp. 80–81.) Some examples of 5PL service providers are JLC Solutions (UK), Paladin Labs Inc. (Germany), and TransLogix (Australia).

Concisely, types of logistics parties can be summarized in the following diagram.

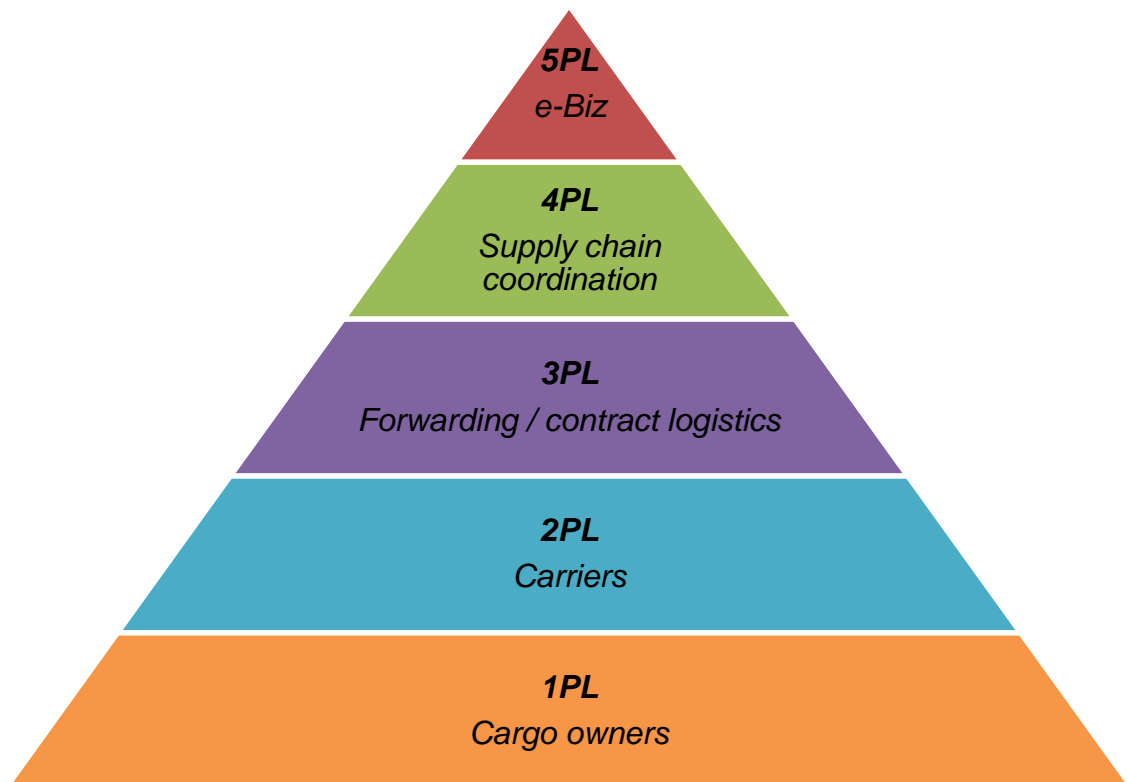


Figure 7. Types of logistics parties (adapted from Farahani et al. 2011, p. 72)

Details of this diagram are explained above.

4.4 Role of 3PLs in the supply chain

Third-party logistics service providers are well-known for their ability to integrate the supply chain, from supplies of raw materials till supplies to end consumers, with very few hurdles. Were it not for them, companies would have to invest significant amounts of money on own transport and warehouse facilities, and suffer from ROI (return on investment) insecurities. Moreover, thanks to a wide variety of services offered by 3PLs, most client companies could concentrate valuable corporate resources on their core business, and leave the entire logistics function to 3PLs. Above all, since 3PLs' key objective is to make sure "everything is right" – right products, right place, right time, right condition, right people, right procedures, right costs, and so on – their unwavering efforts into seamless deliveries play a substantial role in keeping the supply chain moving forward, in a timely and sustainable manner.

4.5 Benefits of becoming 3PLs

As mentioned earlier in theory introduction, the perks of becoming 3PLs are remarkable, which has been substantiated over the years by a handful of success stories of the world's leading 3PLs. Take Caterpillar Logistics as an example. Formerly, it was the logistics department of Caterpillar Inc., an American corporation that sells machinery and engines. Upon its outsourcing contract with Land Rover in 1987, Caterpillar Logistics was founded as a wholly owned subsidiary of the parent company to leverage its logistics expertise. Since then, Caterpillar Logistics has expanded its market segments, served more than 60 client companies globally (2006) and earned the revenue of hundred million US dollars annually. Apparently, by becoming a 3PL, Caterpillar Logistics has unleashed its potential, cultivated its expertise and operations, and marketed itself to customers far beyond its original market. Most importantly, the transition into 3PL has helped the company figure out where it stands in the supply chain, and develop judicious vision such as "the real opportunity for competitive advantage lies in improving the supply chain as a whole" (according to chairman and president Mary Bell, 2006). Since November

2012, Caterpillar Logistics has become Neovia Logistics following ownership transition. Neovia's current CEO is Jos Opdeweegh (Marketwire 2012).

On the other hand, since 3PLs almost always go hand in hand with service integration, it compels companies to re-evaluate their resources and processes, and if necessary, consolidate their offerings. Here comes the example of ATC Logistics and Electronics, a subsidiary of Aftermarket Technology Corporation, USA. It was founded after ATC executives bundled three small business units together. The reason behind this merger, according to Bill Conley (ATCLE president), was that he realized distribution of logistics activities across three separate firms not only caused duplication but seriously obscured the company's popularity and chances of growth as well. Upon centralization of common logistics activities among those three, ATCLE has been able to focus better on its niche and even branch out to the open market. From a private-label logistics firm with zero accounts, ATCLE transformed into a full-service public 3PL that achieved a 45% annual growth rate (2005) in just 2.5 years. Albeit operating at the side of the parent company's core business, ATCLE has managed to maintain healthy growth over the years. In 2008, it was awarded the Employee Transportation Coordinator of the Year by the North Texas Clean Air Coalition, which significantly enhanced the firm's corporate image. (Harrington 2006.)

Supposedly, 3PLs normally rely on a limited number of important accounts rather than unselective, small customers. Compared to ordinary logistics firms, 3PLs have the upper hand with regard to customer relationship management. It is compelling and favorable for them to build customer loyalty. According to Pareto's principle, if 3PLs invest in 20% most potential customers, there are good chances that they will be able to gain 80% profits from those accounts. As good as it gets, this approach also secures a stable source of incomes for 3PLs in the long run. Especially technology-driven 3PLs, possibly those with backgrounds in informatics and software, are able to provide their customers with ardent support, unlimited accessibility, excellent information transparency and almost effortless knowledge transfer, which proves to be lucrative for all involved parties.

Last but not least, being a robust 3PL is very rewarding. From time to time, it is always possible to transform the 3PL – client relationship into strategic partnership, meaning that the company will have greater penetration and participate in the customers' business on a whole new level. In such cases, the 3PLs are empowered with mutual decision-making, simpler sales cycle and much relief of price-bidding hassle, which can actually increase margins significantly.

4.6 Basic requirements of 3PLs

Despite the perks of being a 3PL provider, to adopt such a method is by no means easy. Profits and prestige come along with high quality services, seamless execution and recognition from customers. This implies certain requirements for logistics companies aiming to become 3PL.

Basic requirements of a 3PL may vary across countries and markets, but basically a logistics company needs the following features to be eligible. These guidelines are adapted from documents released by the U.S. Customs and Border Protection.

4.6.1 Operations

- Companies are licensed by Ministry of Transportation in the country of establishment, Customs as well as related authoritative and industrial agencies / associations.
- Companies must be directly involved in cargo handling and management throughout any point in the international supply chain till the first port of arrival.
- Companies must have transnational coverage and engage in cross-border activities.
- Companies utilize their own transport fleets, warehousing assets and consolidation resources without any further subcontracting to other parties. This criterion excludes non-asset-based 3PLs whose duties tied to mainly

office facilities (e.g. desks, computers) and freight industry expertise, because they are unable to enhance supply chain security throughout the whole supply chain.

- Companies are capable of providing IT-integrated logistics solutions (tracking, insurance, after-sales support, etc.) and security.

4.6.2 Resources

Companies must ensure their feasibility in respect of facilities and staff, such as:

- Sufficient fencing for storage facilities;
- Appropriate segregation among different types of cargo – domestic, international, high value, and hazardous;
- Minimum number of gates with constant supervision;
- Durable, concrete and ventilated building structure;
- Adequate lightning within the premises;
- Available alarms and video surveillance cameras;
- Regular inspection, maintenance and repair, if necessary;
- Thorough background checks for staff before and during employment, as well as timely update in case of employee termination.

4.6.3 Security

- It is required to have an employee identification system for positive identification and access control.
- Visitors should be presented with temporary identification, monitored and escorted at all times.
- All procedures for issuance, change and removal of access devices must be documented.
- All documentation used in the movement of merchandise / cargo is legible, complete, accurate and protected against any exchange, loss, errors or misleading information.
- Technical access, including the use of computers, management systems and databases, must be monitored and protected from abuse, misuse and violation.

- It is highly recommended that companies have back-up plans and automated recovery system in the event of data failure.

In short, to be qualified as a capable 3PL, a logistics firm / unit needs not only sufficient IT, financial and human resources, but also independence in business conducts as well as profit and loss responsibility. Above all, logistics companies must always keep in mind that a 3PL transition may take lots of time.

4.7 Chapter summary

Although no absolute definition was offered for third-party logistics service provider, a number of perspectives and categorizations were discussed to give a general idea about 3PLs and related parties in the supply chain.

Regardless of the nature of a 3PL, the industrial benefits, commercial profits and sustainable growth it brings about are conceivable. In order to become one, logistics managers must consider various ingredients such as current operational state, facilities, human and technical resources, as well as a well-defined timeline and strategic plan.

5 Strategy in logistics service

For each and every company, strategy plays a vital role in daily operations and future advancement alike. Especially for a multi-dimensional transition to 3PL, a strategic master plan is indispensable. This chapter will discuss how “strategy” is defined in logistics service, the strategy process as well as effective strategic positioning for prospective 3PLs.

5.1 “Strategy” defined

For companies specializing in logistics services, “strategy” is not limited to logistics functions, like in a subsidiary or unit; but rather captures the sophistication of a corporate-level business strategy (levels of strategy will be discussed later in subchapter 5.2).

As much of an enigma as the term “3PL” is, the term “strategy” has invoked several studies and controversies for years, if not decades. It is suggested in Porter’s work (1996) that “strategy is the creation of a unique and valuable position, involving a different set of activities [...] and making trade-offs in competing”. More than a decade later, Johnson, Scholes, and Whittington (2008, p. 2) define “strategy” as “the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations”.

Meanwhile, as savvy business consultants, Favaro and his colleagues have come up with a briefer and more straightforward definition of “strategy” – “it is the result of choices executives make, on where to play and how to win, to maximize long-term value” (2013); in which “where to play” refers to the target markets, and “how to win” specifies the value proffer that will distinguish the company from other competitors on the playground.

Along with linguistic ambiguity, “strategy” can be seen under different perspectives as well. According to Mintzberg, Lampel, Quinn, and Ghoshal (2003, pp. 4 – 8), strategy can be reflected through five P’s – as plan, ploy, pattern, position, and perspective – which are explained as below:

- plan: a course of actions or a set of guidelines to cope with a situation;
- ploy: a tactic used to outwit an opponent;
- pattern: a repeat of certain behavior;
- position: a means of emplacing an organization in its milieu;
- perspective: a shared perception among members of an organization.

Ostensively, the views on strategy that are most suited to this study are “strategy as a plan” and “strategy as a position”.

5.2 Levels of strategy

As aforementioned, “strategy” for logistics service providers is not merely “logistics strategy”, but strategy on the corporate level. Attested by Johnson et al. (2008, p. 7), there are three levels of strategy, namely corporate-level strategy, business-level strategy and operational strategy. First, the corporate level refers to the overall purpose and scope of the organization, as well as the value adding process in every part of the business. The second level concerns various “strategic business units” and how they compete successfully in particular markets. At this level of strategy, strategic decisions are based largely on how to satisfy customers’ needs in the best way possible, subsequently to gain a competitive advantage over other competitors; therefore explains the alias “competitive strategy”. The third level, operational strategies, deal with how the organizational components – including resources, procedures and people – contribute to the higher levels of strategy. This study will focus on the first level, corporate strategy.

5.3 Strategy process

Every good strategy is formed through thorough considerations, meticulous evaluations and tactical resource allocations. It is also suggested by Mintzberg et al. (2003, pp. 73 – 74) that a strategy process is comprised of two distinctive parts – formulation and implementation of the strategy. As stated earlier, this study does not cover the implementation course. Furthermore, the strategy process described in this thesis is an adaptation from both Mintzberg et al.’s (2003) and Johnson et al.’s (2008) works, illustrated by the following diagram.

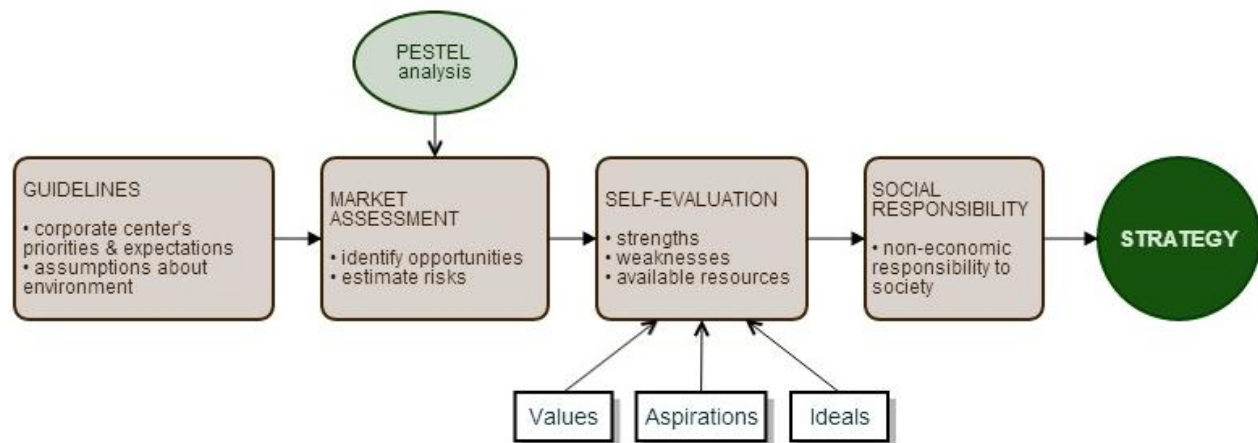


Figure 8. Formulation of strategy (adaptation of Mintzberg et al.'s (2003) and Johnson et al.'s (2008) theories)

It is indicative from the diagram that a general strategy process is comprised of the four following steps:

- Step 1 – Guideline adaptation
- Step 2 – Analysis of external environment
- Step 3 – Evaluation of corporate resources and competencies
- Step 4 – Incorporation of ethical considerations

Apparently, every company has some initial guidelines to which strategy planning adheres. Grant (2003) notes that these so-called “guidelines” usually consist of assumptions about the external environment, for instance technological advancement, price levels, supply – demand conditions, as well as the corporate center’s priorities and expectations (Johnson et al. 2008, p. 402). Thereupon, the company must identify opportunities and estimate risks associated with the ambient by using PESTEL (political, economic, social, technological, environmental and legal) analysis (Johnson et al. 2008. pp. 55 – 57). This step precedes the determination of organizational resources and internal capabilities. Ultimately, personal and ethical values, aspirations and ideals will be taken into account before making the final choice. Moreover, it is noteworthy that awareness of non-economic responsibility gives the company a better image, since the public good is involved; therefore constitutes the fourth element of the strategic decision.

In short, strategy process is the course of matching opportunity with corporate competency at a tolerable level of risk (Mintzberg 2003, p. 78). It can also be seen as a balancing act between maximizing profits and fulfilling corporate social responsibility obligations.

5.4 Strategic positioning

In his famous work about “strategy”, Porter (1996) assumed that “the essence of strategic positioning is to choose activities that are different from rivals”. Particularly, the strategic position is under the impact of external environment, internal strategic capability (resources and competencies), as well as the expectations and influence of stakeholders (Johnson et al. 2008, p. 13). For a logistics service provider (LSP), especially in an emerging market, there are numerous ways by which the firm can differentiate itself from other competitors.

First of all, in response to changes in markets and demands, LSPs strive to offer more of their existing services, but not many of them are doing it the right way. Their service range and depth may be significantly upgraded, however, they maintain acquiescent, relying on customers whose needs match with their standard packages. Instead, such LSPs should pose themselves as solution providers, whose business is based on creativity, prudence and flexibility in crafting solutions. Thus, they can reach out for a wider base of customers, and simultaneously serve existing clients to a much larger extent. As a result, this will help LSPs win more contracts, leading to higher revenues and profits. Besides, in the constantly evolving business world where logistics is becoming more and more complex, LSPs, as solution providers, will gain the upper hand in market competition as well as a head start in the 3PL transition.

Secondly, globalization of supplier and customer markets has led to increased demands for global, or at least transnational, coverage in LSPs. Specially in emerging markets, local firms tolerate nothing less than a massive invasion of foreign giants, which force them to strive towards becoming global LSPs. Moreover, it is critical that LSPs include a broad range of logistics activities in their offerings, regardless of whether they are capable of integrating all of them

into a complete package yet. Arguably, some may prefer being a niche player, emphasizing a few specialized services only; yet this option is very likely to limit business scope, thus obstructs the 3PL transformation.

Another issue to consider is how, or rather where, a LSP position itself in the supply chain. Rushton, Croucher, and Baker (2012, p. 5) have indicated three main parts of a generic supply chain – inbound logistics, outbound logistics and reverse flow. Allegedly, outbound logistics is the most served portion in the supply chain, for client companies tend to outsource distribution function to lower costs and utilize expertise from service providers. Moreover, distribution and transportation of fully-processed / finished products are usually more complex and fastidious, which leaves room for LSPs to charge higher and increase revenue per contract. Nonetheless, as this is a common practice in logistics service industry, competition is tight and harsh. So as to avoid unnecessary struggles, LSPs might want to shift their focus onto the other less popular parts with possibly new customers, more opportunities and much less competition. For instance, e-business firms can prompt a good start, because they are probably unfamiliar with logistics processes, or have no logistics proficiency at all. By participating in different parts of the supply chain, LSPs will develop deeper understanding and a more holistic view of the entire industry, which proves to be extremely valuable in the 3PL transition.

Subsequently, as an LSP starts dealing with more customers (suppose that it adopts the position mentioned above), it is wise to re-organize client companies into “feature groups”, such as “long-term customers”, “potential / new customers in non-niche markets / operations”, “potential accounts in niche markets”, “second-class customers”, and so on. Meanwhile, there is an imperative need to improve organizational human resources by supplementary education, in such a way that each and every personnel is familiarized with basic logistics knowledge (structure of supply chain, some key concepts, etc.), operational factors (e.g. current trends, INCOTERMS) and information and communications technology (ICT). Simple though it may sound, very few logistics companies in emerging markets, for instance Vietnam, manage to ensure a consistent level of savvy professionals in the organization. In many cases, logistics expertise can be

under-appreciated, especially for sales staff as long as they make the best of their silver tongues. Apparently, since manpower is almost always the make-or-break factor, strategic preparation in human resources should have a profound impact on the 3PL transition in the future.

5.5 Chapter summary

Strategy in logistics industry is just as important as in any other fields of business. Hence, logistics service providers need to develop a well-grounded one on the corporate level through the four-step process (as in Figure 7), including guideline adaptation, external environment analysis, self-assessment (in terms of resources and competencies), and corporate social responsibility consideration. Accordingly, logistics service providers should strategically position themselves as solution providers, who complement client companies' business with the empowerment of technology, expertise and cost-efficiency. Such practices not only benefit LSPs' customers in particular and the economy in general; but also prepare ordinary logistics service providers for a monumental 3PL experience.

6 Value creation

In the previous chapter, a number of propositions have been made with reference to strategic positioning and developing of logistics service providers, all of which are based upon one solid idea – to increase value in each and every part of the whole supply chain. Simply put, it is the value creation factor that decides the feasibility and likeability of an LSP, as well as guides the company's business on its journey of becoming a capable 3PL. Ergo, this chapter is devoted to the theory and pattern of value creation.

6.1 Importance of value creation in logistics service business

For decades, there have been innumerable debates on the exact meaning of "value". Because of its ambiguous and complex nature, the term "value" will not be discussed in depth, but rather in the context of logistics business. Basically,

value can be defined as “what buyers are willing to pay” (Haksever et 2004, according to Porter 1985). With regard to logistics service industry, value lies within the continuum between cost-efficiency and competitive service levels i.e. bringing optimal benefits for customers at the lowest supply chain cost possible.

It is said that no company ever grows its way to greatness without first learning to make “value creation” constitutional to the entire organization. Traditionally, firms achieve value creation by either lowering prices against competitors for equivalent benefits, or offering differentiated services (Haksever et al. 2004). However, in a dynamic environment like nowadays, value can be created by making each function or feature unique, not necessarily the service as a whole. Especially when it comes to logistics business, each part of a service package can be elevated into a perfect tailor-made. Take transportation as an example. Regardless of its core business, a company can almost always take care of transportation function on its own. Yet, why bother spend more to operate in-house something that can be outsourced at lower price for better results? While companies struggle to distribute their confined resources to many functions, LSPs concentrate all their stock-in-trade to make sure every delivery is flawless – right time, right place, perfect condition. Companies entrust their logistics job to LSPs because they perceive the ample value they could not achieve otherwise. It has been previously mentioned that by outsourcing to LSPs, companies will be able to focus on core business and wield more flexibility over resource allocation in particular. As a result, when client companies’ perception of received value exceeds their initial expectations, there comes customer loyalty, which proves to be beneficial to both LSPs and client companies alike. Furthermore, outsourcing decisions stimulate partnership, which brings extensive networks and chances for strategic alliance relationship in the future.

As good as it gets, value creation can conveniently boost LSPs’ revenues and overall performance as well. For parties whose livelihood is strongly tied to an LSP, such as shareholders, employees, and possibly suppliers, value creation strategy of the LSP in question, either directly or implicitly, affects their well-being and growth prospect. For instance, in a corporate culture where good values are perpetually created and maintained, owners may rest assured that

they will have investment capital improved, while staff can expect a decent compensation package. As for suppliers, they can count on a steady source of revenues and benefit from inter-related networking, referrals as well as knowledge transfers (if available). Likewise, Webster (1994) ascertains that being market-driven is outdated and the future belongs to those that are value-driven (Ngo and O'Cass 2010). Once an LSP breaks free from exterior constraints, it will be able to experience more autonomy, hence are inspired to create a healthy, positive workplace and self-driven success. Last but not least, since value creation habitude takes into consideration non-economic responsibility and social commitment, it helps enrich LSPs' corporate image, reputation, and industrial status significantly.

6.2 Factors of value creation

Factors of value creation will be identified and assessed from two different perspectives – one in favor of customers, and the other from insiders' viewpoint. Additionally, factors that bring value to the community will be briefly described as well.

6.2.1 Value towards customers

Ngo and O'Cass (2010) define four components of value creation, which are performance value, pricing value, relationship value, and co-creation value. Additionally, the fifth component – development value – has been added to emphasize the constructive role of LSPs in client companies' growth.

- Performance value: associates with the attributes of services, such as quality, innovative features, and customization.
- Pricing value: differentiates between “fair price” and “value price”, in which “fair price” is the price perceived reasonable by customers, and “value price” justifies the benefits of purchasing the service.

- Relationship value: refers to the relational nurture offered by the firm to create a hassle-free, refined consumption experience and to enhance customer relationship, for example easy access, quick response, after-sales support, etc.
- Co-creation value: is added when customers interact with the firm to co-construct the offering package that best suits their contexts. Prahalad and Ramaswamy (2004) state that customers find it beneficent to exercise their influence in every part of the business system (Ngo and O'Cass 2010), hence become an operant resource in companies' value creation strategy.
- Development value: deals with the LSP's ability to improve the client company's operational efficiency. This leads to a win-win situation, in which the customer is significantly advantaged by external logistics expertise, while the LSP accelerates its way to establish a strategic alliance relationship.

6.2.2 Value towards shareholders, staff and suppliers

Apart from satisfying customers, it is crucial for every company to keep its shareholders happy and staff motivated. Therefore, a viable value creation strategy should take into account factors that bring value to internal workforce as well. This thesis will adopt Haksever et al.'s theory (2004) on the dimensions of value creation for shareholders, staff, and suppliers – namely financial, non-financial, and time.

GROUP	VALUE DIMENSION	VALUE CREATED	ACTIVITIES THAT BRING VALUE
SHAREHOLDERS (OWNERS)	Financial	Profits, income, stock appreciation, liquidity	<ul style="list-style-type: none"> - Increase efficiency and quality - Developing service standards and service mix - Enhance customer support
	Non-financial	Autonomy, security, brand image, reputation	<ul style="list-style-type: none"> - Pay regular dividends - Engage in non-economic responsibilities
	Time	Stability, long-term partnerships, customer loyalty	<ul style="list-style-type: none"> - Invest in technology and human resources - Maintain relationships with partners and clients
STAFF	Financial	Wages, salaries, bonuses, stock option, insurance, pension plan, paid vacation time	<ul style="list-style-type: none"> - Provide a compensation package that are relatively more appealing than competitors - Include tools, transports and uniform clothes in the package, if applicable
	Non-financial	Positive workplace, occupational safety, advancement, flexibility	<ul style="list-style-type: none"> - Invest in workforce training - Empower employees to complete tasks - Practice respectful corporate culture - Emphasize inward promotion
	Time	Job security, career advancement	<ul style="list-style-type: none"> - Establish policies that reward loyalty - Maintain pension system
SUPPLIERS	Financial	Revenue, profit shares	<ul style="list-style-type: none"> - Earn profits that outweigh suppliers' overhead costs
	Non-financial	Strategic alliances, referrals, knowledge transfer, reputation	<ul style="list-style-type: none"> - Help suppliers improve efficiency - Provide pertinent information about future plans - Embark on integration
	Time	Security, performance	<ul style="list-style-type: none"> - Preserve partnerships - Provide timely and adequate payment for suppliers' services

Figure 9. Value creation for shareholders, staff and suppliers (Haksever et al. 2004)

6.2.3 Value towards the society

Apparently, when a firm is doing well, its business can have a profound impact on the society. Based upon Haksever et al.'s (2004) value dimensions, such an impact can be explained as follows.

- **Financial**

Since every company has to pay taxes, a successful company pays a huge amount of taxes, which poses as the most important financial benefit to the community. Moreover, purchases made from local suppliers and money spent by the company staffs contribute to the local economy in particular. Likewise, the company's philanthropic activities, if any, will generate monetary support for the local community.

- **Non-financial**

The firm's presence will guarantee relatively stable employment, attract more talents and business investors, and most importantly bestow on community living standards.

- **Time**

Over the course of time, the company's continuous profitability will lead to economic growth thereby contributing to the long-term viability of the community.

6.3 Building a value creation model

Value creation is a prominent concept, yet it is so vague that it requires elaborate visualization to be used in practice. The following value creation model has been fabricated from different theories, including works from Haksever et al. (2004), Mintzberg et al. (2003, p. 95), and Ngo and O'Cass (2010).

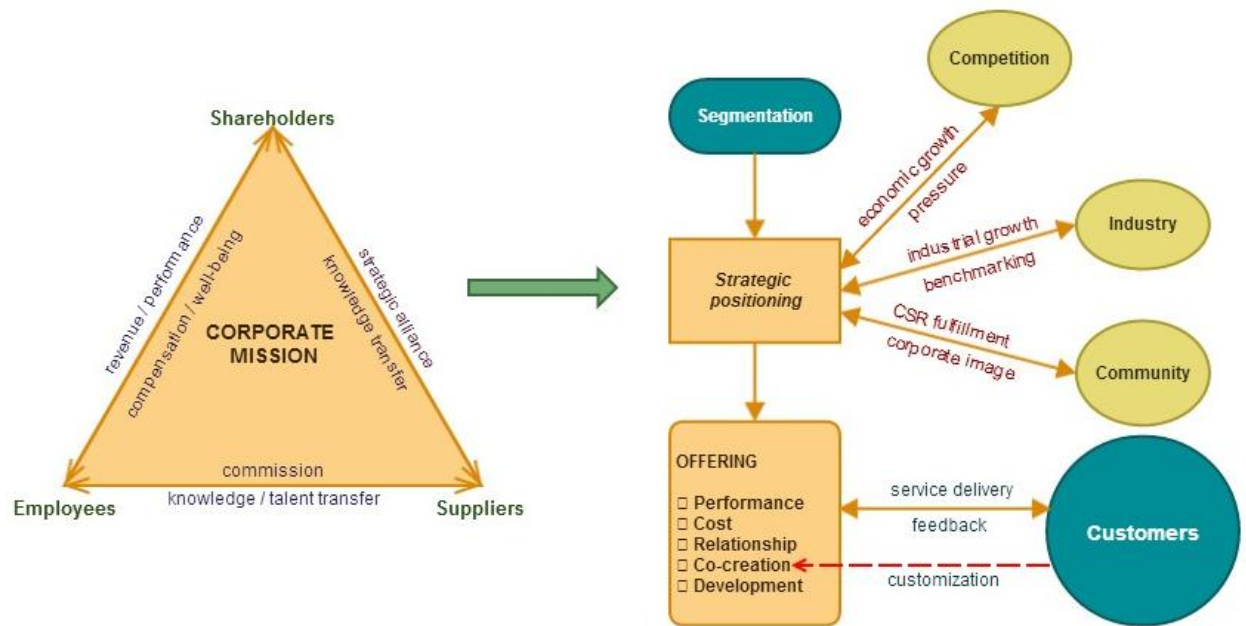


Figure 10. A value creation model: elements and relationships (adaptation of Haksever et al.'s (2004), Mintzberg et al.'s (2003), and Ngo & O'Cass' (2010) theories)

Value creation is the process in which the firm embraces its strategic orientation in close association with its business culture, in order to establish and nurture capabilities that bring superlative value outcomes for both the firm and the customers. First of all, it is of crucial importance to ensure that value creation ideal is embedded in the corporate mission, because this is the foremost lodestar that guides the entire business processes. Under the influence of corporate mission (and possibly vision, values, code of conduct, etc.), different organizational groups interact with one another, and shape hierarchy simultaneously. Shareholders supervise business operations while provide staff with sound remunerations as well as ensure their state of well-being in a healthy, positive professional milieu. Reciprocally, employees' performance and dedication assure the firm's prosperity and unremitting efficiency. Similarly, partnerships between shareholders and suppliers assure both parties' collateral gain and growth. Besides, the interaction between suppliers and staff, albeit not dominant, is also noteworthy. Allegedly, the persons who directly deal with suppliers are not necessarily owners / top managers, but rather the firm's personnel e.g. sales representatives, operation unit, and so on. Frequent exposures to disparate corporate cultures, procedures, expertise, etc. nourish a

more rounded perception of the firm's business and relationships in particular, the logistics service industry and competition in general, and especially work-life balance, thus create value for employees. Likewise, suppliers are very likely to benefit from talent transfer i.e. a change or transport of staff position and professional responsibility from one company to another among inter-related firms, which is quite popular in emerging markets nowadays. Because with a diverse set of "on-demand" skills required for logistics business, a partner can always assign the best talent, with scalability benefits, to generate extra value.

As the service provider works its way to achieve internal values, it also strategically positions itself in the market. Following appropriate segmentation, the firm decides on differential values it can offer compared to the industrial / market standards and its competitors' capabilities. The simplest technique is to consider the most viable choice available for customers if the company's service did not exist i.e. to compare itself with its most eminent rival.

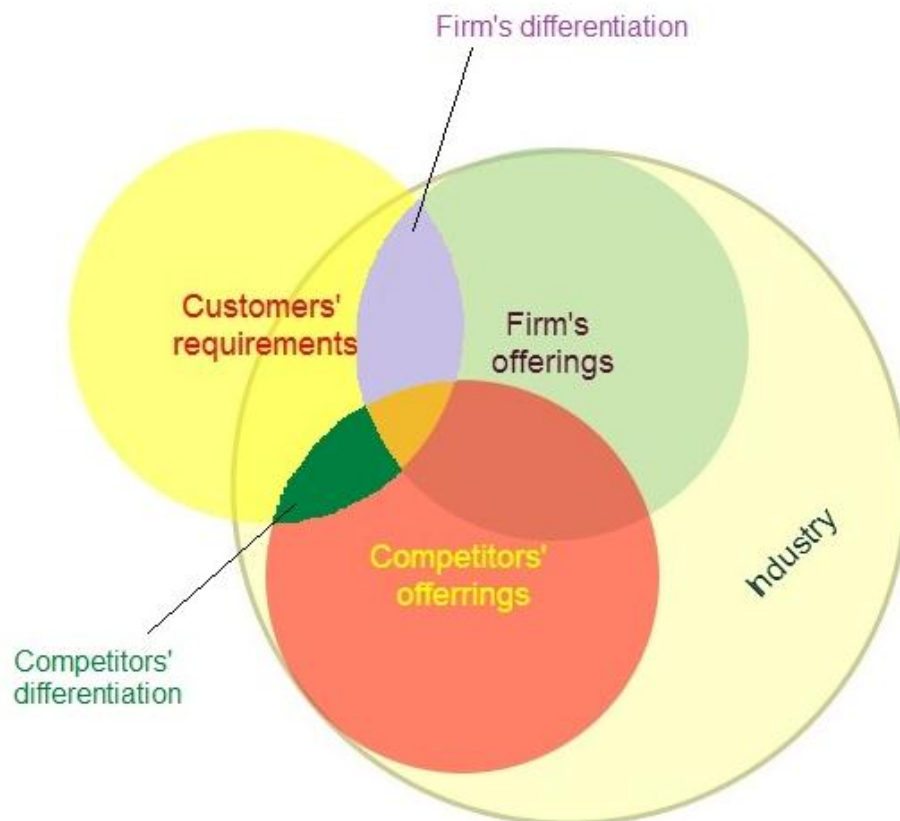


Figure 11. Identification of differential values in strategic positioning

The idea is illustrated through the picture above, in which the purple section represents the LSP's differential values and offer, while the dark green section communicates those of other rivals. Apparently, the service provider needs to grasp its customers' requirements first, for instance the extent of service coverage, the scale of transport / warehouse facilities, etc. to determine its functionality from the standpoint of customers. Then, by judging other players' competencies, the firm will be able to determine where its differentiation may derive from (performance, cost / price, relationship, co-creation, and development). The bottom line is to assure that the LSP's quality and diversity of service offering is comparatively more attractive than that of its rivals. One certain appeal is the willingness to collaborate with customers for optimal customization in service bundling. This approach not only creates immediate value for client companies, but also sets the LSP apart in the market and in the race to become a 3PL. Furthermore, since customers aspire to give feedback on their experience, the LSP is empowered to monitor, comprehend and revise the level of performance in a more objective manner, hence improves its value creation credentials.

Last but not least, as a member of the society, the LSP's business activities are under the influence of the market, the industry and the community. As much as the competition puts pressure on the firm, its livelihood and profitability will vehemently affect the economic and industrial growth. On the other hand, the industrial benchmarks set expectations that guide the company in respect of performance and strategic planning, which relieves the complication of business offer mapping. Concurrently, the LSP's fulfillment of non-economic responsibilities (social, environmental, legal, etc.) not only benefits the society but also accentuates its brand equity, industrial status, and public coverage.

6.4 Chapter summary

Over the course of time, "value creation" has gone from a mere hypothesis to an important concept that has been used in various propositions of even top-notch companies around the world. Apparently, value creation cannot be achieved by the company on its own – it requires across-the-board integration

and endorsement from all operant resources related to the firm's business. It is critical to consider various factors and perspectives of value creation before incorporating them into the company's offerings. All in all, by making value creation the organizational second nature, the logistics service provider constantly gratifies itself and other parties in their inter-relationships.

7 Case study

As aforementioned, VINAFREIGHT has been chosen as the case company to apply all the theories that have been discussed so far. This chapter will delineate the case profile, assess its capability as well as suggest activities that can lead to a successful 3PL transition.

7.1 Case profile

Originally, VINAFREIGHT was a logistics unit of VINATRANS that specialized in air freight management. As time gone by, this air freight unit's reputation went beyond corporate boundaries with impressive sales records and increased staff population, which made it the most eminent department of the parent company. Eventually, as a result of general economic growth and VINATRANS' unremitting expansion, VINAFREIGHT emerged as an independent company to maximize its potential in the logistics service industry, both nationally and globally.

7.1.1 Functionality

VINAFREIGHT's business revolves around these main functions:

- freight import and export via air, sea and road;
- shipping agent and management of container ships and supply vessels;
- freight forwarder for forwarding companies overseas;
- warehousing, import and export container depot – container freight station;
- storage of imported goods;
- customs broker services.

7.1.2 Mission

First and foremost, VINAFREIGHT is dedicated to providing customers with a professional and reliable transportation and forwarding services. Through its system, VINAFREIGHT commits a premium service level in the confidence of developing effective logistics solutions to achieve impeccable management efficiency. (VINAFREIGHT 2005.)

On the one hand, business operations must yield profits that contribute to VINAFREIGHT's livelihood and development, as well as ensure the reproduction of labor and attract more talents. Additionally, VINAFREIGHT is inclined to fulfill tax obligations and play a dynamic role in the advancement of Vietnam's logistics industry, especially in the freight forwarding sector.

7.1.3 Organizational structure

VINAFREIGHT's hierarchical structure can be summarized as follows.

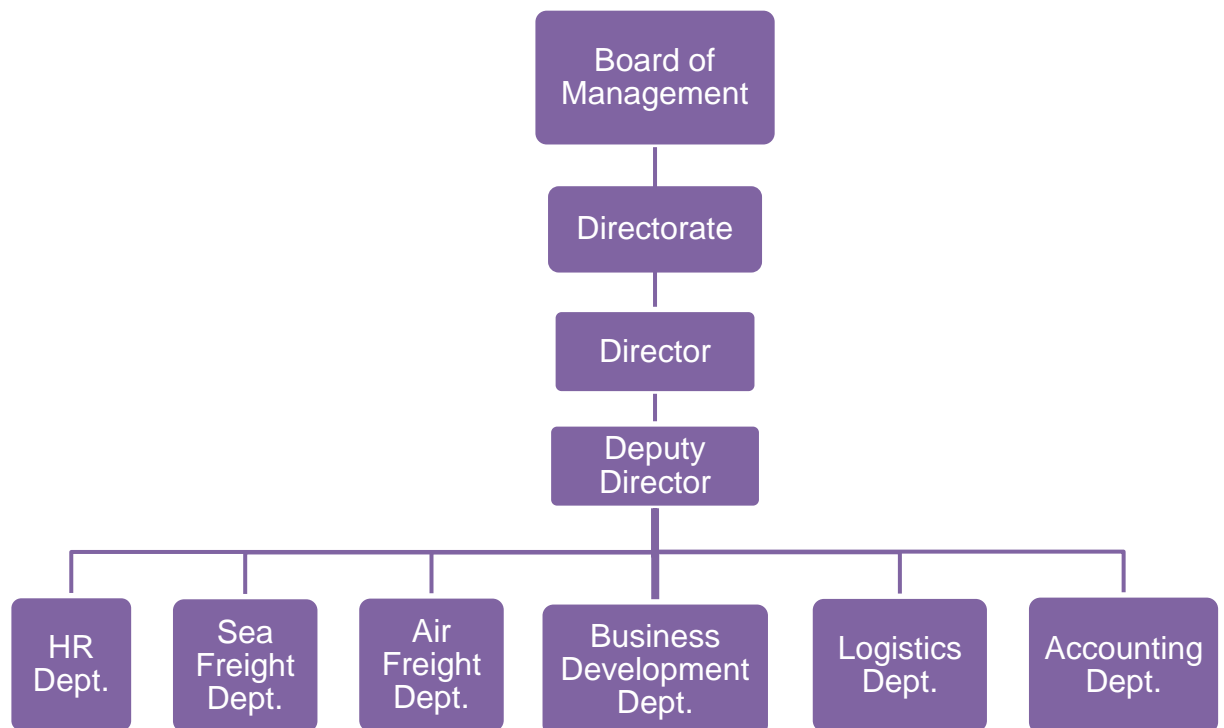


Figure 12. VINAFREIGHT's organizational structure (VINAFREIGHT 2013)

The Directorate, on the behalf of the Board of Management, is the highest leadership body to assume the role of management and long-term strategy development for the company. The Director, at the Directorate's behest, organizes and administers all business activities. These two echelons both have the legal status of business, and are responsible to the state authorities for the firm's operations. The Deputy Director, on the other hand, exercises direct control over all departments. It can be seen from the figure above that VINAFREIGHT invests in all sectors of transport logistics to a large extent, in spite of its origin as an air freight specialist. This demonstrates VINAFREIGHT's effort to amplify and perfect its service offerings towards a 3PL transformation.

7.2 Capability assessment

VINAFREIGHT's competences will be introduced and evaluated in terms of facilities, financial capacity, workforce, service level and technology.

7.2.1 Facilities

Apart from its headquarter based in Ho Chi Minh City (HCMC), VINAFREIGHT has established subsidiaries in major cities in Vietnam, including Ha Noi (capital) and Hai Phong. Also, VINAFREIGHT claims ownership of four warehouses in HCMC – storage 196 Ton That Thuyet and storage 131 Van Don Terminal (District 4), storage 18A Tan Thuan Dong and storage no. 1 Ly Hai (District 7). In a nutshell, up till 2010, VINAFREIGHT retains:

- 10000 m² of covered warehouse;
- 6000 m² of open storage;
- container freight station (CFS) of 3000 m²;
- 1500 m² cold storage with 1800-tonne capacity;
- 20 prime movers;
- container chassis: 6 x 20' and 14 x 40';
- lorries: 1 x ½ tonne and 3 x 2½ tonne;
- forklifts: 1 x 10 tonne and 1 x 7 tonne.

Although the industrial standard of Vietnam's logistics remains vague, it can be seen that VINAFREIGHT's warehouse and transport facilities are rather average compared to some dominant players, for instance SOTRANS (approximately 230000 m² of total storage), DHL (more than 141000 m² only in Northern Vietnam, 100-piece transport fleet), etc. However, lately VINAFREIGHT has made an effort to advance its facilities through a long-term contract with Transimex – the leading state-owned warehousing company that owns a fleet of more than 100 trailers. Particularly, VINAFREIGHT acquired 19% of stakes in Transimex in 2013. Thereupon, VINAFREIGHT can leverage Transimex's assets to meet customer requirements and excel as a true 3PL without steep expenses.

7.2.2 Capacity

VINAFREIGHT's business situation, or rather capacity, will be assessed on the basis of revenue recognition, profits after taxes and recurring sources of revenues i.e. long-term contracts.

According to data from 2013's semi-annual financial report (up to June 2013), VINAFREIGHT has the capital investment of 56 billion VND (approximately US\$2.63 million). Compared to the average fiscal scale of private logistics firms in the domestic market (refer to sub-chapter 3.1.2), VINAFREIGHT clearly has the upper hand with more premises and prospects for growth. To be more specific, the company's net sales and profits after taxes from 2007 to June 2013 will be summarized in the following chart and table; in which "net sales" represents the amount of money generated from business after deducting costs of allowance, discount and reimbursement.

VINAFREIGHT's revenue situation (2007 – 2013)

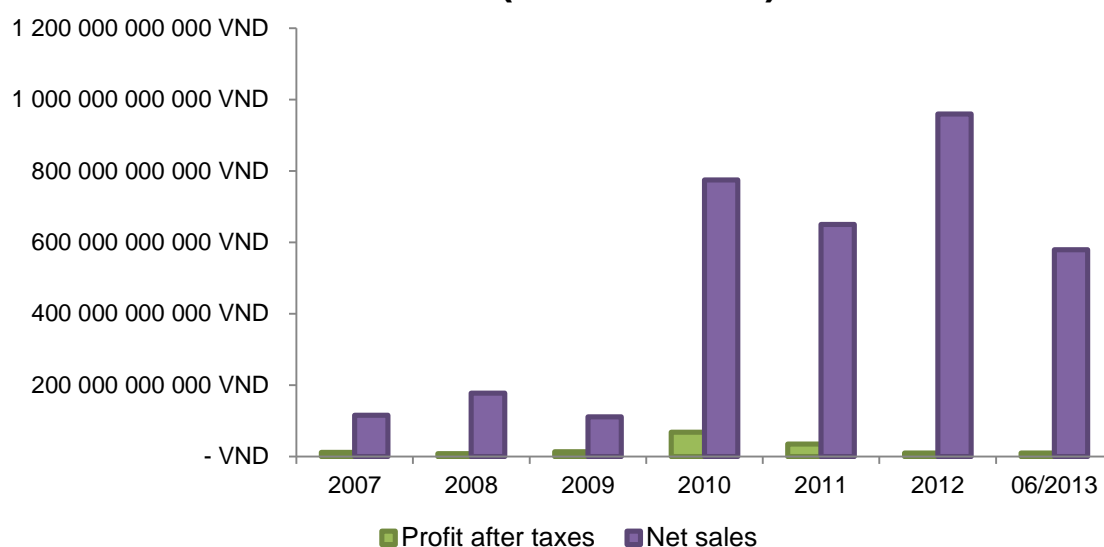


Figure 13. VINAFREIGHT's revenue situation (2007 – 6/2013) (VINAFREIGHT annual reports 2007 – 6/2013)

YEAR / CATEGORY	NET SALES	PROFIT AFTER TAXES
2007	115 720 206 702 VND	11 607 815 289 VND
2008	177 320 550 380 VND	8 285 288 285 VND
2009	111 037 025 832 VND	13 166 605 851 VND
2010	775 173 740 016 VND	67 698 709 709 VND
2011	650 229 340 596 VND	35 195 688 184 VND
2012	959 746 185 777 VND	9 826 308 673 VND
2013	578 935 419 760 VND	9 669 927 418 VND

Figure 14. VINAFREIGHT's net sales and profits after taxes (2007 – 6/2013) (VINAFREIGHT annual reports 2007 – 6/2013)

It is indicative from the data that VINAFREIGHT has managed to maintain growth over the past six years, albeit rather erratic. Notwithstanding the overall ascending trend in revenues, the company's actual profits seemed significantly affected by outward economic forces, such as global financial crises, industrial difficulties in domestic market, etc. This could also be attributed to the fact that

revenue growth rate has remained lower than sales costs growth rate recently. Moreover, the imbalance between supply and demand, especially in cargo service, has resulted in downscale profits.

Nevertheless, VINAFREIGHT has overstepped such difficulties thanks to its long-term contracts with major transport service providers, such as Singapore Airlines, Eva Airways, Cathay Pacific Airways, AirFrance/KLM, British Airways, Lufthansa German Airlines, China Airlines, NYK Line, CMA, Maersk Line, and so on. They are considered recurrent sources of revenues that breed sustainability for VINAFREIGHT's business.

In brief, VINAFREIGHT's economic performance alone is not adequate to decide whether the company is ready for a 3PL transition in the near future or not. However, this information can be incorporated into a strategic plan, or "strategy as a plan", through which decision-makers can have a more transparent view on a 3PL prospect.

7.2.3 Labor

For service-based companies, human resources are the key assets. Especially in logistics industry, high-quality personnel with respectable expertise, suitable backgrounds and self-initiatives play a crucial role, and are considered the "make-or-break" factor of the organization. Likewise, VINAFREIGHT workforce structure will be observed in respect of educational level.

Workforce structure of VINAFREIGHT (educational orientation)

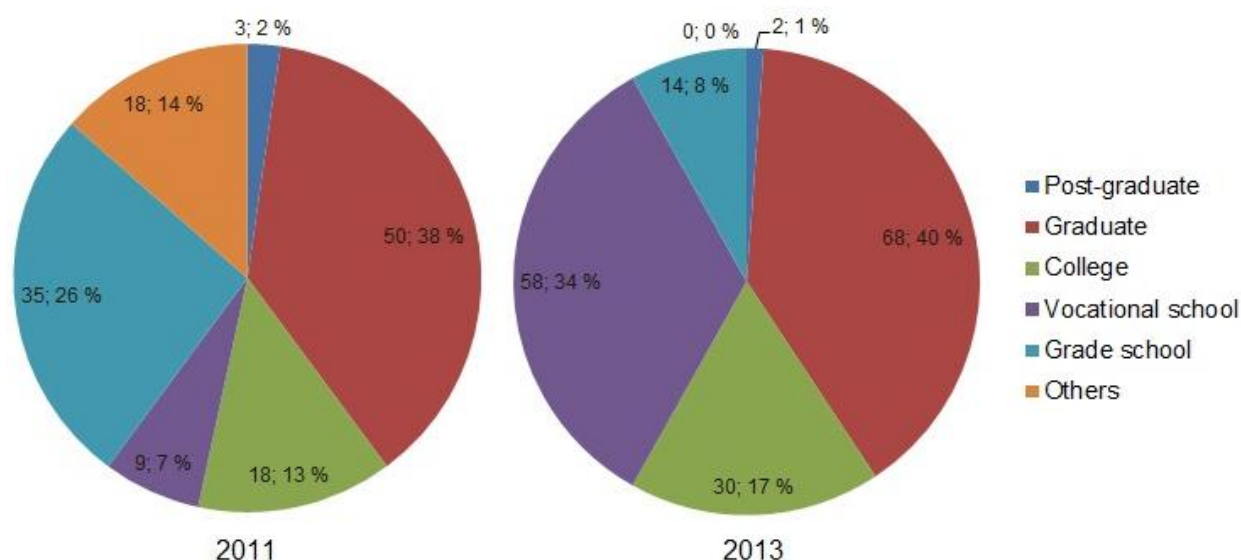


Figure 15. Workforce structure of VINAFREIGHT in respect of educational orientation in 2011 and 2013 (VINAFREIGHT annual reports 2011 and 2013)

In 2011, total staff of VINAFREIGHT is 133 persons, more than half of which has educational background of college and above. Nonetheless, more than one-third of the staff just finished high school, which means they may not be familiar with certain knowledge of business and logistics industry, and are not prepared to work as professionals yet. Such a situation might eventually drain all the company's resources and hamper its healthy growth.

Moving forward to 2013, it is evident that VINAFREIGHT has strived to refine its manpower and upgrade its employment standard. While employees with college background and above have increased, the number of high school graduates has dropped significantly. This shows a positive change in VINAFREIGHT's human resources management policy that constitutes more rounded workforce in the future.

Another highlight concerning VINAFREIGHT's labor force is the corporate culture. Among many players in the market, VINAFREIGHT is well-known for its positive, democratic workplace and people-oriented policies. The fact that managers and staff take care of and listen to one another leads to more understanding, familiarity and predictability; inspires productive teamwork;

nourishes work-life balance; and most importantly, distinguish VINAFREIGHT from its other rivals.

7.2.4 Service level

As previously mentioned, VINAFREIGHT was an in-house unit of VINATRANS, also a joint-stock company. However, before it was equitized, VINATRANS used to be a state-owned organization. Therefore, it has very a close relationship with Customs Authority, which bestows a great competitive advantage regarding customs procedures, as well as updates on regulations and taxes. Subsequently, VINAFREIGHT has inherited and benefited from this legacy, especially in the event of lead time versus service price trade-off. As a matter of fact, VINAFREIGHT would rather maintain short lead time than lower the original service price, which gives the company some distinction in quality and industrial status.

7.2.5 Technology

VINAFREIGHT has invested in some business management software supplied by domestic IT providers to improve efficacy in corporate governance. Nevertheless, most employees find it difficult to work with such unfamiliar systems; and resort to Microsoft Excel for some portions of their work, which significantly decelerates the whole process and affects overall performance. Apparently, there are several reasons that prevent VINAFREIGHT from becoming a technology-driven 3PL – time, money, infrastructure, and investment risks, etc. – and one prevalent obstacle is the lack of initial training, in addition to die-hard business norms e.g. manual data processing, resistance against novelty, and so on.

7.2.6 SWOT analysis

Ultimately, a SWOT analysis of VINAFREIGHT will be presented to summarize its current situation and direction for growth.

STRENGTHS

- leading market share at Tan Son Nhat Int'l Airport, HCMC, Vietnam
- global coverage with agents around the world
→ a steady source of customers and revenues
- young, dynamic and experienced workforce
- positive corporate culture
- expansive functionality that associates domestic and international logistics
- improved technical skills and modernization to facilitate “door-to-door” service package
- increased diversity in service offerings

OPPORTUNITIES

- geographical advantages of Vietnam
- globalization and Vietnam's participation in international associations / organizations e.g. ASEAN, WTO, AFTA,...
- government's open policies and the birth of corporate law
- increase of overseas investment in recent years
- relatively stable business environment that welcomes numerous foreign logistics firms → boost freight capacity, promote global delivery network and initiate knowledge transfer
- logistics service being underestimated → chance for differentiation with trendsetter advantage

WEAKNESSES

- not yet established representative office / subsidiary overseas
→ constraints in international freight forwarding
- air freight consolidation not yet available
- lack of integration and professionalization
→ not yet implemented multi-modal transport service
- lack of foreign languages proficiency → low professionalism
- limited infrastructure → prevent the execution of multi-modal transport approach in terms of cross-border delivery

THREATS

- global financial crises → less orders and transactions
- appearance of new forwarding / logistics agents
→ more competition
- contribution of logistics sector being under-appreciated
- under-developed general infrastructure
- lack of industrial modernization and integration
- intermittence in freight forwarding
- inconsistent regulations and discouraging tax regime
- confusing, bureaucratic customs procedures
- business norm in Vietnam – buy CIF sell FOB → loss from foreign exchange and passivity in marketing activities
→ decreased profits

Figure 16. SWOT analysis of VINAFREIGHT

7.3 Strategy

It can be seen from the analysis above that VINAFREIGHT has been active in the market long enough to grasp the essence of the domestic logistics industry. Despite having a robust, capable workforce and a respectable initial outlay, the firm has not been able to develop on par with its potential because it lacks a feasible long-term strategy. Now it is high time VINAFREIGHT assumed a strategic plan and position to prepare itself for a meaningful 3PL transition.

As explained previously, VINAFREIGHT's strategy towards a 3PL transition should focus on differentiation and value creation. Accordingly, VINAFREIGHT should strategically position itself as a logistics solution provider and elaborate its operations based upon these prompts:

- Go global.
- Include a wide variety of logistics activities in offerings.
- Explore and engage in all parts of the supply chain – inbound, outbound, and reverse flow.
- Establish partnerships with asset-based logistics firms to leverage their facilities and expertise, and save costs.
- Invest in personnel education / training on logistics expertise and technological know-hows.
- Emphasize teamwork as a vital part of corporate culture.
- Innovate segmentation – shift focus to those segments with less traffic, and re-organize customer groups.
- Consider doing business with e-commerce companies.
- Determine a good marketing strategy that is closely linked with VINAFREIGHT's public image.

7.4 Recommendations

Apart from the previous proposition, there are plenty of ideas that VINAFREIGHT can consider and experiment, some of which will be explained as follows.

First of all, it has been mentioned earlier that engagement in e-commerce sector might be a good start for LSPs should they aim to modify their original segmentation. Likewise, LSPs should leverage social media as a marketing tool to amplify their public coverage and keep track of customers' changing attitudes. With the advancement of technology, value creation can be smoothly achieved via information and communications technology – be it Twitter, LinkedIn, blogs / vlogs (video blogs), or any similar platform. Moreover, LSPs should actively participate in industrial and economic forums to get updates on latest trends and happenings in the business world, as well as enjoy the power of extensive networking and numerous possibilities.

Again, it is well-known that human is the most valuable asset in service-based company. Especially in commoditized service markets, talents that are both adaptive and responsive can unlock more innovations and withal high-end value to customers. Yet, along with the retirement of long-tenured generation, the cost of hiring, training and retaining people are exponentially rising. Hence, it is high time LSPs considered “talent management” as an approach and a grand component in human resources management. Not only can it resolve imminent skills shortage, but “talent management” can promote further collaboration among partners as well.

Last but not least, it is said that LSPs can handily differentiate themselves with after-sales services. In fact, a reliable and efficacious after-sales support system generates customer loyalty and yield sustainable profits. Although this is not a new concept, particularly in service business, after-sales support system is not yet common for small and medium enterprises, since it requires sophisticated ICT scheme, in addition to exceptional level of service delivery. Fortunately, there are several theories, paradigms and experiments that LSPs can refer to, contemplate and adopt, or contrive a new one, whichever is applicable.

8 Conclusion

Constant evolution in Vietnam's emerging environment begets the need for a 3PL transition in the domestic logistics industry. In order to compete fair-and-square with foreign corporations and unleash full potential, local private logistics companies should strive to become 3PL service providers.

Among multiple factors, strategic positioning plays a vital role in any company's viability. Especially in service-based sector, strategic positioning via value creation can have a profound impact on not only one single firm but also the entire industry and competition as a whole.

The outcomes of literature review and case study divulge some of the fundamentals for effective logistics business in general, and for a fluent 3PL transformation in particular. The findings drawn from this research have a potential to be used as groundwork by any local private logistics firm of small and medium scales in Vietnam, for the purpose of improving business operations and preparing for an industrial shift. Unfortunately, the empirical results deem insufficient to draw any concrete conclusions with regard to Vietnamese 3PLs potentiality in the near future.

9 Prospect for further research

The main focus of this thesis was to suggest a set of activities that initiate and possibly lead to a successful 3PL transition for local private logistics companies in Vietnam nowadays. Still there is plenty of room for improvement, and the idea itself needs more elaboration in future studies. For instance, how to solve or mediate conflicts between different stakeholders (shareholders, employees, customers, suppliers, and the community) in value creation strategy; or a definitive guide to identify and utilize quantitative value drivers. Moreover, since this thesis does not cover execution and administration phases, an extension on the same topic would be encouraged and anticipated in the future.

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List of figures

Figure 1. Thesis procedure, p. 5.

Figure 2. Comparison of Vietnam's LPI in 2007, 2010, and 2012 (Vietnam Score Card 2012, World Bank), p. 8.

Figure 3. Vietnam's LPI across the three years 2007, 2010, and 2012 (Vietnam Score Card 2012, World Bank), p. 8.

Figure 4. Logistics costs in comparison with GDP in some countries in 2010 (The Journal of Commerce Online (USA), Wharton (Europe, India, Japan), The Global Rail (China), Frost & Sullivan (Singapore, Malaysia, Thailand, Vietnam)), p. 11.

Figure 5. Logistics performance of ASEAN countries in 2012 (World Bank 2013), p. 12.

Figure 6. 3PL classification in terms of problem solving ability and customer adaptation (Hertz & Alfredsson 2003), p. 22.

Figure 7. Types of logistics parties (adapted from Farahani et al. 2011, p. 72), p. 25.

Figure 8. Formulation of strategy (adaptation of Mintzberg et al.'s (2003) and Johnson et al.'s (2008) theories), p. 33.

Figure 9. Value creation for shareholders, staff and suppliers (Haksever et al. 2004), p. 40.

Figure 10. A value creation model: elements and relationships (adaptation of Haksever et al.'s (2004), Mintzberg et al.'s (2003), and Ngo & O'Cass' (2010) theories), p. 42.

Figure 11. Identification of differential values in strategic positioning, p. 43.

Figure 12. VINAFREIGHT's organizational structure (VINAFREIGHT 2013), p. 46.

Figure 13. VINAFREIGHT's revenue situation (2007 – 6/2013) (VINAFREIGHT annual reports 2007 – 6/2013), p. 49.

Figure 14. VINAFREIGHT's net revenues and profits after taxes (2007 – 6/2013) (VINAFREIGHT annual reports 2007 – 6/2013), p. 49.

Figure 15. Workforce structure of VINAFREIGHT in respect of educational orientation in 2011 and 2013 (VINAFREIGHT annual reports 2011 and 2013), p. 51.

Figure 16. SWOT analysis of VINAFREIGHT, p. 53.